

Memorandum

To: Panel Members Date: October 24, 2002

From: Diana Torres, Manager
Peter DeMauro, General Counsel Analyst: C. Robinson

Subject: One-Step Agreement for **Varco International, Inc.**
(www.Varco.com)

CONTRACTOR:

- Training Project Profile: Retraining: Companies with Out-of-State Competition
- Legislative Priorities: Promotion of California's Workforce
Stimulating Exports/Imports
Moving To a High Performance Workplace
- Type of Industry: Manufacturing
- Repeat Contractor: No
- Contractor's Full Time Employees:
 - Company Wide: 10,000
 - In California: 650
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: N/A

CONTRACT:

- Program Costs: \$293,722
- Substantial Contribution: \$0
- Total ETP Funding: \$293,722
- In-Kind Contribution: \$513,109
- Reimbursement Method: Fixed Fee
- County (ies) Served: Orange
- Duration of Agreement: 24 Months

SUBCONTRACTORS:

Bolero Associates, LLC of Orange, California \$252,600 for Class/lab training in Business Skills, Continuous Improvement, Manufacturing and Management Skills; and \$32,400 for all project administration services.

THIRD PARTY SERVICES:

The Applicant states that Bolero Associates, LLC of Orange, California provided assistance with the development of the application, including a Training Needs Assessment, Training Plan, Curriculum, and other Agreement requirements for a flat fee of \$16,000.

NARRATIVE:

Founded in 1908 by Baldwin Reinhold and Walter Abegg, Varco International, Inc. (Varco), manufactures automated drilling and handling products in Orange County, California. Title 22, California Code of Regulations (22 CCR) Section 4416(b) states, in part, that "A company engaged in manufacturing is deemed to meet the out-of-state competition requirement for purposes of Panel Funding...." Varco has been deemed as eligible for ETP funding as an industrially classified manufacturer retraining current employees in competition with other manufacturers located outside of California.

Initially, Varco, then known as the Abegg and Reinhold Company, concentrated on forging hand tools for the western mining and automobile industry. The Abegg and Reinhold Company was also part of the emerging petroleum industry, and by 1912, the Company was providing rig repair services to the fledgling industry in addition to hand tools. As the uses for oil and gas expanded, technology and experience transformed the rudimentary hand tools to power driven tools, derricks and complicated rigs for rotary drilling. After several decades of growth and expansion in several southern California locations, the Company moved to the city of Orange in 1974. Currently the Orange facility manufactures a wide variety of automated drilling products including Top Drives, Pipe Racking Systems, Pipe Handling and Transfer Systems, Roughnecks, Drawworks, Fingerboards, Drillers, Conveyors and Catheads. Major competitors of Varco include National Oilwell, Maritime Hydraulics and Tesco, located in Texas and Canada.

In recent years, Varco has experienced increased manufacturing costs in California that now exceed the cost to manufacture in other parts of the United States and the world. Technology and the global environment have brought the cost of the Company's operation to the forefront. Therefore, the Orange facility is challenged to improve its efficiency and remain cost competitive in order to return a fair value to its shareholders. Varco's traditional functional approach to manufacturing is no longer efficient, productive or cost effective to meet current market competition. In order to improve efficiency, productivity and improve manufacturing costs, Varco must re-engineer its entire manufacturing environment to create a "Better, Faster, and Cheaper" environment and change the culture of how the Company does business. The Company is moving from a traditional, functional, departmental manufacturing world to a cell approach for production. Company employees lack the skills needed to

NARRATIVE: (continued)

implement the major cultural changes needed to increase Varco's performance and competitive edge. Employees need to understand how their work impacts the next person on the team, and how they are part of an internal supply chain that is linked and aligned to the same end of improved manufacturing processes. In addition, front-line workers must also develop decision-making skills while working together as teams to reach new levels of competence and performance. The proposed cultural changes would require employees at every level of the organization to acquire both new and enhanced skills in a re-engineered facility.

In order to be successful at re-engineering its facility, the Company is proposing to change to a self-directed cellular team environment and is redefining its entire manufacturing process to a "Quick Response Manufacturing" culture. A "Quick Response Manufacturing" culture involves production of high quality products in the shortest possible time for its customers. To initiate this change, Varco recently conducted an extensive employee training needs assessment. The assessment results indicated that the major areas of need were: improved communication and manufacturing skills, the ability to administer, problem-solve, manage, make decisions, and lead cellular teams, and finally, lean manufacturing skills to improve Varco's efficiency while lowering production costs. The company has identified 21 Managers and 279 Manufacturing, Engineers, Clerical, Administrative and Production related staff who will be provided between 52 and 90 hours of class/lab training. To meet the documented need for a comprehensive training plan, a menu curriculum has been developed which consists of the following:

Continuous Improvement Skills:

Each trainee included in the training plan will receive Continuous Improvement Skills training to ensure understanding of Quality, Lean Manufacturing concepts, Teamwork, and, in some cases, Supply Chain Management. These topics are necessary to improve Varco's efficiency and meet its goal of improved product quality, decreased production times and reduced costs. "Better, Faster, and Cheaper". Understanding these concepts are necessary to lower production costs and non-value added steps out of the Company's manufacturing processes. These skills will also enable Varco to reduce cycle times, increase margins and stay viable as a manufacturing business in California.

Each employee involved in cell leadership or cell support will receive Varco Team Leader Facilitation Skills and Team Performance training to make possible the change to self-managed cellular teams. The development of new core competencies must occur to move each cell from a group of individuals into a high performance team. In a cellular concept, the leadership role is shared among different individuals in the cell. This training will allow each potential leader to understand the principles that will enable him/her to build, develop, coach, evaluate, and lead the assigned cell.

Manufacturing Skills:

Changing to a cellular approach for Varco means that each manufacturing work unit will be small, fast, flexible and self-contained. This requires cross-training some employees to learn each job within the cell. Manufacturing Skills training will enable Varco to cross-train employees and build flexibility into each cell to increase efficiency and productivity. Manufacturing Skills training for Varco production staff will consist of machine tooling operation, loading and unloading, and improved operating procedures. Increasing competency levels and Cross-training in these areas will enable Production Operators to reach maximum efficiencies in the production, assembly, and warehouse areas. Improved manufacturing proficiency will aid the company's plans to enhance their market share by adding more products to their current offerings.

NARRATIVE: (continued)

Business Skills:

All employees included in the training plan will take some required courses to develop their business skills. This training will assist them to understand that the effectiveness, efficiency, and the ability of the cell to meet divisional goals will depend upon each employees' ability to communicate. Excellent communication skills are needed within each cell, among the various cells, and with employees supporting each cell. All Varco employees must develop critical core competencies in listening and understanding to aid with changing the culture of how the Company does business. Additionally, in order to become effective in the re-engineered work cells, all of Varco's employees must understand how to organize their time and work load in order to be able to handle multiple tasks within each cell.

Supplemental Nature of Training

Over the past two years, Varco has purchased approximately \$1,515,000 dollars in new manufacturing equipment including a Mazak Quick Turn, vertical turning lath, horizontal boring mill, high pressure coolant pumps, new cutting tools and new grinders. In addition, \$300,000 was recently spent to co-locate equipment, machines and workers into a cellular layout. However, Varco does not have a formal training budget to implement the new high performance processes. In the past Varco has not provided any regular or consistent formal training to any front-line employees directly involved in actual manufacturing duties. Rather, these employees were provided with informal, periodic training in how to be more efficient in occasional 30-minute segments. Previously, employees not directly involved in performing production duties were given Computer Skills Class/lab training in order to improve their support skills to the aforementioned employees.

The proposed training is different from any training provided in the past in that the proposed training encompasses formal Business, Continuous Improvement and Manufacturing Skills training focused to meet the company's need to transition to a High Performance Workplace and its goal of becoming "Better, Faster, and Cheaper" than its competitors. The training proposed for this ETP Agreement is new training never before offered to these employees.

Varco has certified in writing that all of the proposed training in Continuous Improvement, Business and Manufacturing Skills is supplemental to training the company provides in the normal course of its business and would not occur in the form and manner described in the application without funds from the Employment Training Panel. Following the term of the proposed training plan Varco has committed to providing between 71 - 130 hours of training for each of the 300 employees in the manufacturing division.

In-Kind Contribution

Company representatives have certified that the companies will invest \$ 513,109 for wages paid to retrainees during training.

COMMENTS:

Of the 300 proposed retrainees, 279 (93 percent) meet the definition of a frontline worker found in Title 22, California Code of Regulations section 4400 (ee) (1) and (3). The remaining 21 (7 percent) are managers.

COMMENTS: (continued)

Senior Policy Managers/Executive Level - Managers

The proposed Contractor certifies that no senior policy manager or executive level employees have been included in this training project.

PROPOSED ACTION:

Staff recommends that the Panel approve this proposal if funds are available and the project meets Panel priorities based upon Varco's stated need to provide employees with skills to enhance the company's ability to stay competitive, grow, and remain viable in the California economy.

TRAINING PLAN:

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs.	No. CBT Hrs.	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
Job Numbers 1 – 5 Retrainees	MENU Continuous Improvement, Business Skills, and Manufacturing Skills	300	52 - 130	N/A	N/A	\$676 - \$1690	\$11.78 - \$60.74
					<u>Range of Hourly Wages</u>		
					\$11.78 - \$60.74		
					<u>Prevalent Hourly Wage</u>		
					\$ 21.83		
					<u>Average Cost per Trainee</u>		
					\$ 979		
<u>Health Benefit used to meet ETP minimum wage:</u> N/A					<u>Turnover Rate</u> 6.48 %	<u>% of Mgrs & Supervisors to be trained:</u> 7%	

MENU CURRICULUM
THE PINES RESORT & CONFERENCE CENTER

Hours
<u>Class/Lab</u>
Job 1 = 104
Job 2 = 72
Job 3 = 72

Trainees will receive one or more of the following:

CONTINUOUS IMPROVEMENT

- Problem Solving
- Quality Concepts
- Quality Improvement
- Resolving Team Conflict
- Team Building
- Team Communication & Diversity
- Team Meetings

BUSINESS SKILLS

- Developing Guest Loyalty
- Putting Guests First
- Service Delivery Skills
- Guest Service Communication
- Providing a Five Star Experience
- Handling Conflict
- Dealing with Difficult Guests
- Telephone Sales Techniques
- Up-selling Skills

COMPUTER SKILLS

- Fundamentals of Computers
- Microsoft Word
- Excel
- Microsoft Publisher
- Using the Internet
- Lanmark
- Lanmark Reservation
- Private Branch Exchange (PBX) System
- Remanco (Restaurant Management Computer System)
- Cashiering

MENU CURRICULUM (continued)

THE PINES RESORT & CONFERENCE CENTER

MANAGEMENT SKILLS (JOB 1 ONLY)

- Coaching and Counseling
- Communication
- Delegating & Monitoring
- Evaluating Performance
- Leadership Skills
- Managing Meetings
- Motivation Training
- Performance Management